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Providing logistics to the healthcare industry is part of Bomi's DNA. The CEO of the Mexican affiliate shares his views about the changing Mexican distribution landscape, the company's current activities as well as his personal ambitions for the future.

The last time we met you was 2012. What has changed for Bomi Mexico ever since?

Over the past three years we have managed to double the size of the company, mainly focusing on retaining our existing clients and attracting new ones. Having more clients has allowed us to deploy additional infrastructure, which is benefitting our entire client base. Compared to three years ago we also have more solid cross-dock operations. Today we have eight different cross-dock points where we send consolidated shipments, which are then broken down into different deliveries. This has changed considerably the equation because in the past we needed to use couriers to reach the final destinations, while today we are able to handle a larger volume in-house. Also, we added warehousing facilities in Guadalajara and Monterrey.

What have been the most important growth drivers over the past three years?

On the one hand regulation, as the Federal Commission for the Protection against Sanitary Risk (COFEPRIS) is becoming increasingly stringent with drug and medical devices manufacturers with

regard to supply chain and warehousing of products. On the other, the entry of new players after the suppression of the manufacturing plant requirement to market products on the market. India is one of the countries that has seen a large number of new comers; but we have also seen companies from South Korea and the US. We do not provide dedicated services, but sometimes we help them better understand and work with the regulatory authorities.

What about the challenges? How do you overcome them?

The most important challenge we are facing is the continuous need from our clients to develop more cost-efficient solutions. Bomi works as a strategic partner to develop these solutions together with its clients. We provide full transparency about the operation and KPIs, and generate continuous improvement initiatives that are usually implemented working together with clients. We can’t take decisions on behalf of them, but provide all the information and analysis they need to make the right call. Many times this means that the supply chain area will have to get the buy-in of other areas, like commercial or customer service.

Another challenge is sourcing new clients. It is difficult to bring together all people implied in the decision making, from quality assurance and regulation up to supply chain, as they often work in different departments, report to different heads and, obviously, have very different priorities, also in terms of costs. We always try to add value by helping them create a more cost-efficient solution in line with the requirements of the regulatory agency, but it is sometimes easier said than done. We try to bring people together and show success stories we are achieving with other clients, this helps them feel more confident in our services.

Lead times are also a main concern as they become shorter. We are increasingly dealing with just-in-time delivery, as it is the case of products used in surgeries, impulse-driven or life-savers. We are focused on developing tailor-made solutions for our clients allowing them to reach consumption points faster and at a reasonable cost. .

The last time we met you told us that “in Mexico there is a huge difference with other markets because of the wholesalers set up.” How has the panorama changed recently, especially with one of the most important wholesalers, Casa Saba, out of the game?

In the past four wholesalers – Nadro, Marzam, Casa Saba and Fármacos Especializados – were in charge of distributing medicines to the more than 20,000 independent pharmacies across the country. Pharmaceutical companies have had a rough 2014 due to the exit of Casa Saba. Some pharma companies have lost revenues and cash they are not going to collect anymore, while the market shares have been significantly affected in some categories due to the scarcity of products

at the point of sale. Fortunately, the changes in the distribution landscape have not affected our operations. We deliver to wholesalers, as we do to any other client. However, our business model is very different because we never own the inventory, whereas wholesalers do. It is not our intention to compete with them, as we fulfill different needs of the market.

That said, I think their business is declining because many independent pharmacies are being taken over by large pharmacy chains. We do deliver to the modern channel and larger pharmacy chains. We reach their distribution centers, but they take care of the last mile. I think a big chunk of the market is slowly moving in this direction.

Hector Valle, former general manager for Northern Latin America at IMS Health, told us that wholesalers in the mid-term may shift into becoming logistics players. What do you think about this statement?

I think they definitely could. However, it's really tough for such companies to do the downscaling, as they have a different business model and organization, whereby they own the whole transportation system. It's hard to do what we do, because we start from a very frugal culture and a more asset-light business model. It's not easy to downscale the model fast and efficiently. That's why I am not much concerned about them entering our market.

Three years ago one of the biggest barriers you were facing was on the regulatory side, as the difference between wholesalers, distributors and third-party logistics (3PLs) was not clear in the regulatory frame. How is it today?

The difference in the business model is very clear, though it still is blurry with regard to the regulatory side. 3PLs are not differentiated yet, for instance. We definitely need more clarity from the regulatory agency, but I understand it's not a top priority. Also, there is lot of confusion with regard to naming. In Mexico wholesalers are called 'distributors': they buy and resell the products, adding a mark-up, but take care of the distribution only as a means to get the products to their clients. We do only the warehousing and distribution, and charge a fee for it.

The medical devices industry looks a bit different, as besides wholesalers we also have integrators, which consolidate purchasing of medical devices and equipment. However, there is a large distinction. They own and sell the products as wholesalers do, but also are the ones participating in government tenders. So the power they have over manufacturers is very different. In recent times we are seeing medical devices manufacturers moving from distributorship to direct sales. In the past manufacturers would sell to distributors, who would then be following up and providing services to the final client. However, the follow-up was a big black box. Today we are witnessing a

trend towards approaching clients directly to allow follow-up, as companies understand they have an implied liability.



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Back in 2012 the medical device segment was the heart of Bomi Mexico. What's moving through your warehouses today?

It's a 50/50 proportion. In Italy, where the company was established, the company would not deal with big pharma. We have always had pharma clients: we provide personalized solutions, so why not leveraging our competitive advantages with clients who need them? A key differentiator which has helped better position ourselves in the market is our investment in technology. Over the past three years we have invested in a refrigerated tunnel, in a new tracking platform for deliveries as well as in a business intelligence tool we share with all our clients, where they can track all supply chain-relevant information such as inventory levels, deliveries, times, space used, number of SKUs, rotation, among others.

However, the most important change was a shift from being a 'black box' to be much more transparent towards the client. In the past the thinking was "the less you know, the better", as this would make the client more dependent on the logistic supplier. We have completely changed this paradigm to become a real partner to our clients and provide them with the best solutions. All companies – pharma as well as medical devices – are paying much more attention to costs and the only way to make this happen, it is by working with the client. We need to be aligned with them and understand their operations and their needs, across all steps of the supply chain. It also represents somehow a higher commitment to the client, as we are completely naked in front of them in terms of costs and operations. Indeed we always stay away from the decision-making, because we do not know what are the strategic drivers behind the needs. We share what we see and can be improved and leave it to the client to make the best decision.

What are your personal ambitions for the company for the next five years?

We are trying to address two key aspects. First of all, being able to provide regional solutions because clients with broader operations prefer to deal only with one party to make the operations more efficient. Also, we are seeing an increasing trend towards having a same supplier for different

needs. So the natural step for us would be to move into managing import operations, which we currently do not. This would give us much more visibility and control on this crucial step. We are also interested in entering the animal health market whose needs are a good match with our competitive advantages, for example in terms of time sensitivity and temperature control. Also the commercial reference we have is strong, as the players we see in the market are (or were) part of large pharmaceutical companies we are already working with. We want to stay true to our focus and continue being a niche player, and believe that opportunities – such as integrated services – will come by themselves, as there are lots of things, which can be done.

We see many opportunities in Mexico as – despite the global trend of outsourcing logistics to specialists – in many companies part of the supply chain is still handled in-house. Sometimes companies do not see or understand their hidden costs, but with an increasing number of companies shifting, more and more will realize the benefits of the model and follow the example.

What is your golden rule to run the business?

We always think about the three Ps of the business – the product, the people and the profit, in that order. And when I mention the people, of course it's our staff but also the client. Often companies believe that KPIs are the golden standard and if these are fulfilled, everyone is happy. My experience tells me it's not always the case. If despite the 99.98 percent inventory consistency we usually deliver, we miss an important product, which for example, was key to win a bid or not delivered to a patient for a surgery, the customer is going to be upset. KPIs are a good north, but we always take care also of perception. We strive to have long-term relationships with our clients and provide the best service, with the best infrastructure and the best people.

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